SML ISUZU

Sell

Result Update

Weak performance continues, Retain Sell

- SML Isuzu continued its weak performance. Revenue stood at Rs 2.58bn (-61% QoQ) attributed to 64% QoQ de-growth in volume (812 units), partially offset by 7% QoQ increase in net ASP due to higher spare parts revenue and price hike. Bus to Truck volume mix was in ratio of 39:61.
- EBITDA loss widen to Rs. 173mn from Rs. 51mn in Q4FY21 attributable to negative operating leverage and unfavorable product mix. Net loss extended to Rs.334mn vs Rs.201mn in previous quarter due to higher interest and depreciation cost.
- Although the company incurred a very low capex of Rs 105mn in FY21, we expect the company to require high funds ahead for developing its EV buses portfolio and fulfilling its short term obligation. Inventory is high in bus segment and unlikely to liquidate in near term.
- We continue to maintain a negative view on the stock and expect FY22 to be a tough year as challenges persist in the form of Covid related disruption and weak financial health of fleet operator. We believe demand for the school bus segment to remain weak in FY22, however increasing demand for Ambulance buses to provide some support to falling volume. The increasing penetration of EVs in the bus segment and rising competitive intensity are key threats for the company.
- At CMP, stock is trading at 26x FY23E EPS. We maintain Sell rating, with a target price of Rs 449 (20x FY23E EPS).

Bus segment to remain under pressure

SML's market share in the bus segment improved by 249bps QoQ to 6.7% in Q1FY21. We believe demand for the school bus segment to remain weak in FY22 as well due to postponement of school re-opening amid possibility of third wave, however we expect increasing demand of Ambulances to provide some support to volume. Cargo segment volume expected to show strong growth in FY22 led by increased requirements for last-mile transportation, especially from ecommerce segment.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	1,000	287	247.8	2,584	(61.3)
Total Expense	1,173	644	82.0	2,635	(55.5)
EBITDA	(173)	(357)	(51.6)	(51)	240.2
Depreciation	111	116	(4.4)	112	(0.9)
EBIT	(284)	(473)	(40.0)	(163)	74.3
Other Income	4	8	(54.5)	10	(64.6)
Interest	54	57	(5.7)	47	14.9
EBT	(334)	(523)	(36.0)	(200)	67.2
Tax	0	0		1	(100.0)
RPAT	(334)	(523)	(36.0)	(201)	66.2
APAT	(334)	(523)	(36.0)	(201)	66.2
			(bps)		(bps)
Gross Margin (%)	27.0	22.2	481	18.5	850
EBITDA Margin (%)	(17.3)	(124.1)	10686	(2.0)	(1532)
NPM (%)	(33.5)	(181.8)	14839	(7.8)	(2566)
Tax Rate (%)	0.0	0.0	0	(0.6)	60
EBIT Margin (%)	(28.4)	(164.5)	13616	(6.3)	(2209)

CMP	Rs 579
Target / Downside	Rs 449 / 22%
NIFTY	16,282

Scrip Details

Equity / FV	Rs 145mn / Rs 10
Market Cap	Rs 8bn
	USD 113mn
52-week High/Low	Rs 697/ 365
Avg. Volume (no)	1,72,047
Bloom Code	SM IN

Price Performance	1M	3M	12M
Absolute (%)	16	25	40
Rel to NIFTY (%)	12	14	(1)

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	44.0	44.0	44.0
MF/Banks/FIs	1.3	1.3	1.3
FIIs	3.4	3.3	2.9
Public / Others	51.4	51.4	51.8

Valuation (x)

	FY21A	FY22E	FY23E
P/E	(6.3)	(18.2)	25.8
EV/EBITDA	(14.9)	66.0	10.6
ROE (%)	(41.7)	(19.9)	14.6
RoACE (%)	(22.9)	(4.7)	12.1

Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	5,915	10,081	15,362
EBITDA	(683)	167	998
PAT	(1,335)	(462)	325
EPS (Rs.)	(92.2)	(31.9)	22.4

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Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	Dart Est	Var (%)	Comments
Revenue	1,000	953	5	
EBIDTA	(173)	(229)	(24)	Higher employee expense
EBIDTA Margin (%)	(17.3)	(24.0)	671 (bps)	
APAT	(334)	(392)	(15)	Lower other income and high interest cost

Source: DART, Company

Exhibit 2: Change in Estimates

Particulars (Rs Mn)	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	10,081	11,036	(8.7)	15,362	15,231	0.9
EBITDA	167	386	(56.9)	998	967	3.2
EBITDA Margin (%)	1.7	3.5	(185) bps	6.5	6.3	15 bps
PAT	(462)	(242)	NA	325	296	10.0
EPS (Rs)	(31.9)	(16.7)	NA	22.4	20.4	10.0

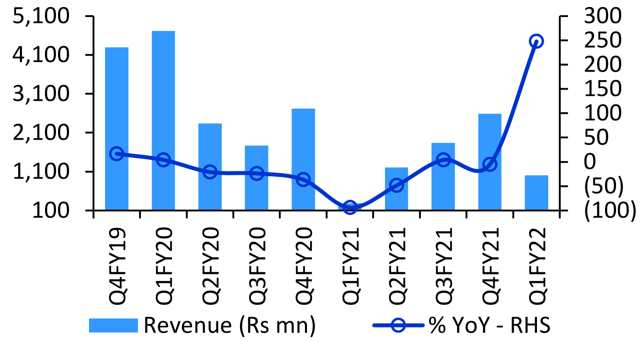
Source: DART, Company

Exhibit 3: Key Assumptions

(in units)	FY19	FY20	FY21	FY22E	FY23E
Buses	7,827	6,581	947	2,526	4,640
% YoY	28.2	(15.9)	(85.6)	166.7	83.7
Trucks	5,143	3,318	3,647	5,112	6,888
% YoY	7.3	(35.5)	9.9	40.2	34.7
Domestic Volume	**12,970**	**9,899**	**4,594**	**7,638**	**11,528**
% YoY	19.0	(23.7)	(53.6)	66.3	50.9
Exports Volume	**688**	**595**	**449**	**627**	**819**
% YoY	46.7	(13.5)	(24.5)	39.6	30.6
Total Volume	**13,658**	**10,494**	**5,043**	**8,265**	**12,347**
% YoY	**20.1**	**(23.2)**	**(51.9)**	**63.9**	**49.4**

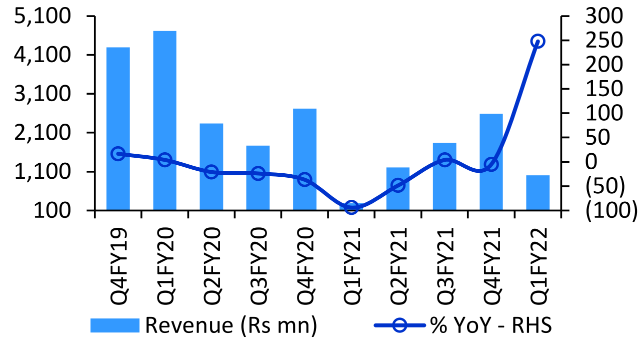
Source: DART, Company

Exhibit 4: Revenue de-grew 61% QoQ



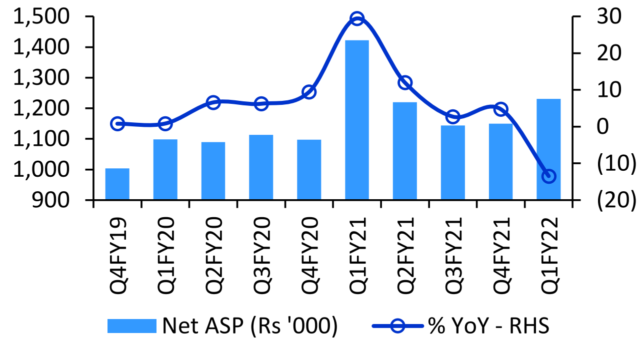
Source: DART, Company

Exhibit 5: Volume de-grew QoQ



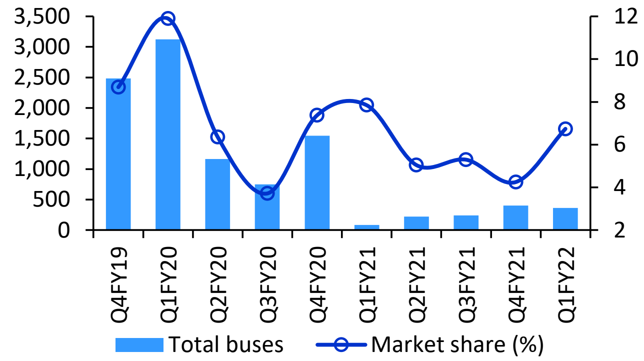
Source: DART, Company

Exhibit 6: Net ASP improved QoQ



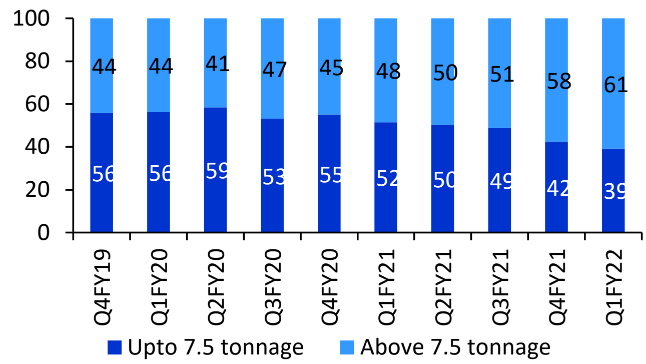
Source: DART, Company

Exhibit 7: Bus segment market share (%)



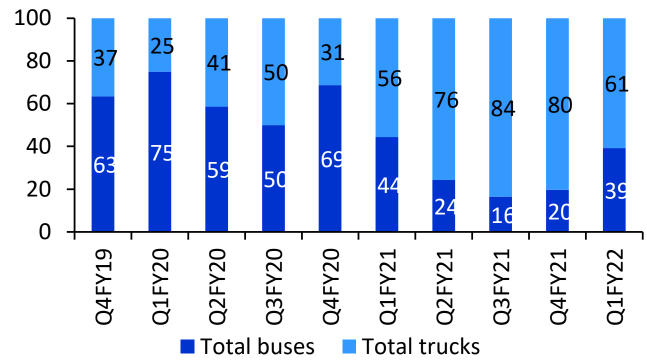
Source: DART, Company

Exhibit 8: Product mix by tonnage (%)



Source: DART, Company

Exhibit 9: Product mix by segment (%)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	**11,542**	**5,915**	**10,081**	**15,362**
Total Expense	**11,423**	**6,598**	**9,915**	**14,364**
COGS	9,042	4,707	7,762	11,721
Employees Cost	1,552	1,335	1,428	1,557
Other expenses	829	557	724	1,086
EBIDTA	**119**	**(683)**	**167**	**998**
Depreciation	407	462	442	458
EBIT	**(288)**	**(1,145)**	**(276)**	**541**
Interest	146	233	246	264
Other Income	51	45	60	66
Exc. / E.O. items	0	0	0	0
EBT	**(383)**	**(1,334)**	**(462)**	**342**
Tax	(173)	1	0	17
RPAT	(211)	(1,335)	(462)	325
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**(211)**	**(1,335)**	**(462)**	**325**

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	145	145	145	145
Minority Interest	0	0	0	0
Reserves & Surplus	3,704	2,411	1,932	2,223
Net Worth	**3,849**	**2,556**	**2,077**	**2,368**
Total Debt	1,362	2,138	2,738	2,938
Net Deferred Tax Liability	(152)	(151)	(200)	(150)
Total Capital Employed	**5,059**	**4,543**	**4,615**	**5,156**
Applications of Funds				
Net Block	**4,262**	**3,886**	**3,844**	**3,686**
CWIP	32	51	150	200
Investments	0	0	0	0
Current Assets, Loans & Advances	**4,141**	**3,875**	**4,691**	**6,436**
Inventories	2,689	2,601	3,360	4,054
Receivables	395	392	616	1,067
Cash and Bank Balances	363	331	139	714
Loans and Advances	694	551	576	601
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	**3,376**	**3,269**	**4,070**	**5,166**
Payables	1,075	977	1,540	2,347
Other Current Liabilities	2,300	2,291	2,530	2,819
sub total				
Net Current Assets	766	606	621	1,270
Total Assets	**5,059**	**4,543**	**4,615**	**5,156**

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	21.7	20.4	23.0	23.7
EBIDTA Margin	1.0	(11.6)	1.7	6.5
EBIT Margin	(2.5)	(19.4)	(2.7)	3.5
Tax rate	45.0	(0.1)	0.0	5.0
Net Profit Margin	(1.8)	(22.6)	(4.6)	2.1
(B) As Percentage of Net Sales (%)				
COGS	78.3	79.6	77.0	76.3
Employee	13.4	22.6	14.2	10.1
Other	7.2	9.4	7.2	7.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.8	1.3	1.2
Interest Coverage	(2.0)	(4.9)	(1.1)	2.0
Inventory days	85	160	122	96
Debtors days	12	24	22	25
Average Cost of Debt	8.3	13.3	10.1	9.3
Payable days	34	60	56	56
Working Capital days	24	37	22	30
FA T/O	2.7	1.5	2.6	4.2
(D) Measures of Investment				
AEPS (Rs)	(14.5)	(92.2)	(31.9)	22.4
CEPS (Rs)	13.6	(60.3)	(1.4)	54.1
DPS (Rs)	0.0	0.0	1.0	2.0
Dividend Payout (%)	0.0	0.0	(3.1)	8.9
BVPS (Rs)	265.8	176.5	143.4	163.5
RoANW (%)	(5.3)	(41.7)	(19.9)	14.6
RoACE (%)	(1.1)	(22.9)	(4.7)	12.1
RoAIC (%)	(5.4)	(25.7)	(6.3)	12.1
(E) Valuation Ratios				
CMP (Rs)	579	579	579	579
P/E	(39.8)	(6.3)	(18.2)	25.8
Mcap (Rs Mn)	8,386	8,386	8,386	8,386
MCap/ Sales	0.7	1.4	0.8	0.5
EV	9,385	10,193	10,985	10,610
EV/Sales	0.8	1.7	1.1	0.7
EV/EBITDA	78.9	(14.9)	66.0	10.6
P/BV	2.2	3.3	4.0	3.5
Dividend Yield (%)	0.0	0.0	0.2	0.3
(F) Growth Rate (%)				
Revenue	(18.1)	(48.8)	70.4	52.4
EBITDA	(84.0)	(674.9)	(124.4)	499.3
EBIT	(180.2)	297.2	(75.9)	(296.2)
PBT	(257.5)	248.0	(65.4)	(174.1)
APAT	(207.6)	533.9	(65.4)	(170.4)
EPS	(207.6)	533.9	(65.4)	(170.4)

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	1,862	(512)	20	973
CFI	(630)	(105)	(499)	(350)
CFF	(927)	543	337	(98)
FCFF	1,231	(618)	(480)	623
Opening Cash	302	363	331	139
Closing Cash	363	331	139	714

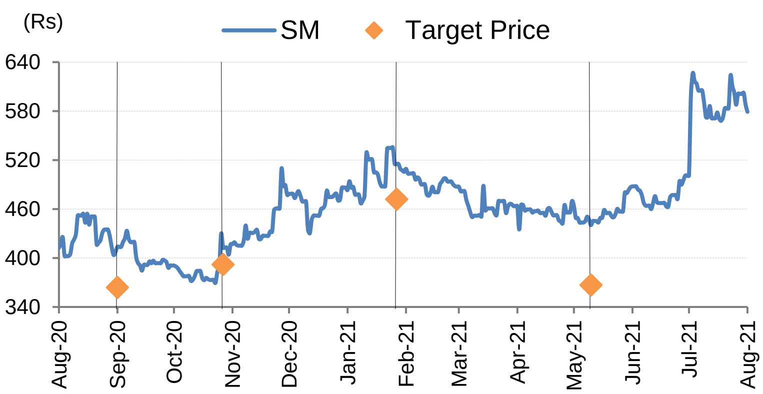
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Sep-20	Sell	364	414
Nov-20	Sell	392	413
Feb-21	Sell	472	515
May-21	Sell	367	440

*Price as on recommendation date

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